

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements

June 30, 2000

(1) Summary of Significant Accounting Policies

The City of Annapolis (City) is an incorporated municipality governed by a mayor and eight aldermen who together constitute the City Council. The City government provides most basic local governmental services except education, which is provided through the Anne Arundel County Board of Education.

For financial reporting purposes, the general purpose financial statements include the various departments governed directly by the City Council. The City does not have any component units as defined by generally accepted accounting principles. The Mayor is responsible for appointing the commissioners of the Annapolis Public Housing Authority, but the City's accountability for this organization does not extend beyond making the appointment.

The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

(A) Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances/retained earnings, revenues, and expenditures/expenses. The various funds are summarized by type in the financial statements. The following funds and account groups are used by the City:

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the City are financed.

The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental funds:

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. In addition, the central garage for maintenance of City vehicles and other minor central services are accounted for in the General Fund rather than in separate internal service funds. Likewise, all City effort on behalf of its capital projects is controlled as part of the General Fund. Through a special cost allocation process, General Fund effort which benefits other funds directly, such as through garage activities, or indirectly, such as through capital projects supervision, general administration and other activities, is charged to such funds on a lump-sum basis. These amounts are identified in the accompanying financial statements as administrative charges and are considered appropriate to reimburse the General Fund for charges incurred on behalf of the other funds. The charges reduce related expenditure accounts in the General Fund.

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

Special Revenue Fund - The Special Revenue Fund is used to account for Community Development Block Grants received from the federal government.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources and expenditures applied to the construction of capital facilities and major purchased items for all governmental fund types.

PROPRIETARY FUNDS

The Internal Service Fund is used to account for the activities of a self-insurance program for general and automotive liability claims. The liability for unpaid claims, which is included in other liabilities, is based upon individual case estimates reported as of June 30, 2000 and management's estimate of claims incurred but not reported to that date.

Enterprise funds are used to account for those activities of the City (1) which are financed and operated in a manner similar to private business enterprises in that costs and expenses, including depreciation, are recovered principally through user charges, or (2) for which the City Council has determined that revenues, expenses and net income are important determinations for public policy, management control and accountability.

The enterprise funds used by the City account for the operations and other activities of the City's water system, sanitary sewage collection and treatment system, off-street parking facilities, dock, Market House, transportation system, and refuse collection operation.

Sewage treatment is performed at a single, jointly-owned plant site controlled and operated by Anne Arundel County. The City has a fifty percent ownership of the property, plant and equipment but does not have joint control of the financial or operating policies, thus the arrangement is not considered a joint venture. The current agreement calls for the City to share in actual costs for fifty percent of capital improvements and a flow-based percentage of operational costs.

FIDUCIARY FUND - PENSION TRUST FUND

The Pension Trust Fund is used to account for pension assets held by the City in a trustee capacity. This fund is accounted for and reported in a manner similar to proprietary funds since capital maintenance is critical.

ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the City of a stewardship nature (i.e., land, buildings, certain land improvements, furniture, fixtures, vehicles and equipment), other than those accounted for in the enterprise funds.

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

General Long-Term Debt Account Group - This account group is established to account for all long-term debt of the City, except that accounted for in the enterprise funds.

(B) Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The unreserved fund balance is a measure of available spendable resources.

All proprietary funds and the Pension Trust Fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary and similar trust fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting", the City has elected not to follow any pronouncements issued by the Financial Accounting Standards Board since November 30, 1989.

The modified accrual basis of accounting is followed by the governmental funds. Under this basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded for decreases in net financial resources when a fund liability is incurred, if measurable, except for debt service, which is recognized when due.

Property taxes levied during the current year are recorded as receivables and deferred revenue, net of estimated uncollectible amounts. The net receivables collected during the current year and within sixty days after year-end are recognized as revenues in the current year.

Licenses and permits, charges for non-enterprise services, fines and forfeitures and miscellaneous revenues (except investment earnings) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The accrual basis of accounting, followed by the proprietary funds and the Pension Trust fund, recognizes revenues when they are earned and expenses when liabilities are incurred. For the Pension Trust Fund, member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

(C) Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as reservations of fund balances since the commitments will be honored through subsequent years' expenditures.

(D) Budgetary Process

The City follows these procedures in establishing its budgetary data.

- (1) By the second Monday in April, the Mayor submits to the City Council a proposed budget for the General Fund and each of the enterprise funds for the fiscal year commencing the following July 1.
- (2) The budget is referred to the Finance Committee, which makes recommendations on the budget to the full City Council by the second Monday in May.
- (3) The City Council holds public hearings to obtain taxpayer comments.
- (4) No later than June 30, the budget is legally enacted through passage of a budget ordinance which establishes spending authority by fund for the operations of the City.
- (5) Supplemental appropriations and transfers of funds must be approved by the City Council. The allocation of funds from the surplus of the budget requires a two-thirds vote by the City Council.

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

All budgets are on an annual basis except the Capital Projects Fund budget which is on a project basis. Budgets are adopted using the same basis of accounting as used for reporting purposes, except that for governmental funds, encumbrances are treated as expenditures. Unencumbered appropriations lapse at June 30 for all funds, except the Capital Projects Fund.

(E) Investments

Short-term investments of the City are recorded at fair value. Investments in the Pension Trust Fund represent the pension plan's ownership interests in the net assets of various investment funds. The investments in these funds are recorded at fair value.

(F) Inventories

Inventories consist of supplies and materials valued at cost using the first-in/first-out method and are recorded as expenditures/expenses as the items are used.

(G) Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets, other than public domain general fixed assets, are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Assets in the General Fixed Assets Account Group are not depreciated. Depreciation of buildings, improvements and equipment in the enterprise funds is computed using the straight-line method over the estimated useful lives. The estimated useful life for buildings and improvements is fifty years. For equipment, the estimated useful life is ten years, with the exception of buses and heavy equipment; these have estimated useful lives of seven years and five years, respectively. Depreciation in the enterprise funds applicable to assets acquired with grant funds and other revenues externally restricted for capital acquisition and construction is charged to operations and then transferred to contributed capital.

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(H) Vacation and Sick Leave

Vacation benefits are earned by employees of the City based on time in service, and the rights to such benefits are vested. Sick leave is also accumulated by employees based on time in service. Accumulated sick leave benefits do not vest and are not paid unless sickness causes employees to be absent; however, accumulated sick time not used is credited to months of service in the calculation of employees' retirement benefits.

The City records vested vacation benefits as earned. The amount earned and unused is recorded as a liability in the respective funds since the City estimates that the entire amount is current. In accordance with GASB Statement Number 16, "Accounting for Compensated Absences", the City also recorded the related social security and medicare taxes as a liability as of June 30, 2000.

(I) Cash Flows

For purposes of the statement of cash flows, highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

(J) Total Data

Total columns are labeled "Memorandum Only" to indicate that they are to facilitate financial analysis. Such amounts do not present financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Such data is not comparable to a consolidation as the basis of accounting among the various fund types differs and no interfund eliminations have been made in the determination of such amounts.

(K) Comparative Data/Reclassifications

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements to provide an understanding of the changes in the City's financial position and operations. In addition, certain amounts presented in the prior-year data have been reclassified to be consistent with the current year's presentation.

(L) Designations of Fund Balance

Designations of fund balance represent tentative management plans that are subject to change.

(M) New Accounting Pronouncement

In June 1999, the Government Accounting Standards Board issued Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" (GASB 34). This statement establishes specific accounting and reporting standards for general purpose external reporting. The City has not yet determined the impact of adopting GASB 34 on its financial statement presentation or disclosures. The City is required to adopt GASB 34 for the fiscal year ending June 30, 2003.

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(2) Differences Between GAAP and Budget Basis

The general purpose financial statements and notes conform with GAAP, which provides that the Combined Statement of Revenues and Expenditures and Encumbrances - Budget and Actual - General Fund (Budget Basis) should be prepared on a budget basis for the governmental funds that are budgeted annually. The statement is also designed to demonstrate compliance and non-compliance with budget limitations. In the General Fund, the budget basis differs from GAAP in that the budget basis reflects encumbrances as the equivalent of expenditures. GAAP reflects encumbrances only as reservations of fund balance. Also, interfund transfers are considered as the equivalent of revenues and expenditures of the affected funds under the budget basis. In addition, new capital leases are recorded as an expenditure and as an other financing source only on a GAAP basis. The GAAP and budget basis statements for the General Fund are reconciled as follows:

| | |
|------------------------|--|
| | Excess of revenues and other sources over <u>expenditures and other uses</u> |
| Budget basis | \$3,947,973 |
| Effect of encumbrances | <u>237,591</u> |
| GAAP basis | <u><u>\$4,185,564</u></u> |

(3) Property Tax

The City's real property tax is levied each July 1 on the assessed values certified as of that date for all taxable real property located in the City. At that time, a lien is placed against the property. Assessed values are established by the State Department of Assessments and Taxation at predetermined percentages of estimated market value. A revaluation of all property is required to be completed every three years. Payments are due by September 30. Beginning October 1, interest is charged each month or fraction thereof until such taxes are paid. Delinquent taxes are collected, after the ninth month of delinquency, by tax sales conducted by Anne Arundel County. The assessed value of taxable real property as of July 1, 1999 was approximately \$935,177,000.

(4) Cash and Investments

The City maintains an investment pool that is available to all funds except the Pension Trust Fund, which holds investments separate from other City funds and controls its own cash transactions. All other City cash receipt and disbursement transactions are initiated in the General Fund and amounts applicable to other funds are transferred through the respective interfund receivable and payable accounts. The cash balance of the Internal Service Fund is maintained in a separate account at the Maryland Local Government Investment Pool.

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(4) Cash and Investments, continued

At year-end, the carrying amount of the City's deposits was \$139,876 and the bank balance was \$596,605. The bank balance at year-end was covered by federal depository insurance of \$157,349 and by collateral of \$439,256 held by the banks' trust departments in the name of the City. Statutes require the pledging of collateral by the respective banks' trust departments for any uninsured deposits of the City.

Except for investments in the Pension Trust Fund, the City is authorized to invest in obligations of the U. S. Treasury, agencies and instrumentalities, bankers' acceptances, repurchase agreements, certificates of deposit, and the state's local government investment pool. Contractually, the City's Pension Trust investment managers are restricted to investments in common stock, public bonds, real estate and money market investment funds.

The City's investments at June 30, 2000 are summarized below to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

| | Category | | | Carrying Value |
|---|-------------------|----------|----------|-----------------------------|
| | 1 | 2 | 3 | |
| Bankers' acceptances | \$ 2,913,059 | - | - | 2,913,059 |
| U.S. Government securities | 11,761,061 | - | - | 11,761,061 |
| | <u>14,674,120</u> | <u>-</u> | <u>-</u> | <u>14,674,120</u> |
| Investments in the state's local government investment pool | | | | 7,400,654 |
| Investments in pooled investment funds managed by pension trustee | | | | <u>124,984,202</u> |
| Total | | | | <u><u>\$147,058,976</u></u> |

The above categorization is representative of the level of risk assumed by the City related to investments throughout the year. Investments in the state's local government investment pool are categorized under cash and cash equivalents since the pool is a demand account that can be accessed for deposits and withdrawals on a daily basis. The Maryland Local Government Investment Pool(Pool) was established under Article 95, Section 22G of the Annotated Code of Maryland and is under the administrative control of the State Treasurer. Mercantile-Safe Deposit and Trust Company is currently contracted to operate the Pool and may invest in any instrument permitted by Section 6-222 of the State Finance and Procurement Article. The City's fair value position in the Pool is the same as the value of the pool shares.

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(5) Segment Information for Enterprise Funds

Selected financial information as of and for the year ended June 30, 2000 with respect to the various enterprise funds maintained by the City to provide community services to City residents is as follows:

| | Water Fund | Sewer Fund | Off Street Parking Fund | Dock Fund |
|--|----------------|------------------------|-------------------------------|------------------------------|
| Operating revenues | \$2,567,455 | \$3,509,425 | \$1,852,855 | \$744,397 |
| Depreciation expense | 404,564 | 434,607 | 252,756 | 68,014 |
| Operating income (loss) | (259,025) | (183,062) | 875,535 | 308,704 |
| Grant income | - | - | - | 34,062 |
| Non-operating revenues (expenses), net | (250,568) | (246,313) | (249,597) | (13,605) |
| Operating transfers, net | - | - | - | - |
| Net income (loss) | (509,593) | (429,375) | 625,938 | 295,099 |
| Current capital contributions | 35,331 | 657,720 | - | - |
| Net property, plant and equipment additions(deletions) | 622,773 | 777,635 | 770,422 | 57,747 |
| Net working capital (deficiency) | (1,524,057) | 1,491,496 | (4,313,342) | 388,010 |
| Total assets | 12,798,634 | 17,643,301 | 10,907,891 | 2,383,789 |
| Unearned water and sewer capital facility assessments | 3,048,025 | 2,996,895 | - | - |
| Long-term debt | 4,162,349 | 4,714,494 | 4,320,843 | 846,393 |
| Total fund equity | 3,356,170 | 8,902,091 | 2,224,180 | 1,433,865 |
| | Market Fund | Transportation Fund | Refuse Fund | Total Enterprise Funds |
| Operating revenues | \$107,055 | \$650,376 | \$2,340,731 | 11,772,294 |
| Depreciation expense | 13,770 | 390,434 | 54,819 | 1,618,964 |
| Operating income (loss) | 51,410 | (2,501,206) | 212,740 | (1,494,904) |
| Grant income | - | 2,002,055 | - | 2,036,117 |
| Non-operating revenues (expenses), net | (2,781) | 1,988,666 | (4,495) | 1,221,307 |
| Operating transfers, net | - | 154,700 | 2,376 | 157,076 |
| Net income (loss) | 48,629 | (357,840) | 210,621 | (116,521) |
| Current capital contributions | - | 18,848 | - | 711,899 |
| Net property, plant and equipment additions(deletions) | (1,029) | (20,262) | (18,495) | 2,188,791 |
| Net working capital (deficiency) | 229,936 | (134,821) | 432,302 | (3,430,476) |
| Total assets | 564,521 | 4,494,682 | 823,762 | 49,616,580 |
| Unearned water and sewer capital facility assessments | - | - | - | 6,044,920 |
| Long-term debt | 44,663 | 225,443 | - | 14,314,185 |
| Total fund equity | 507,212 | 2,578,130 | 644,960 | 19,646,608 |

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(6) Liability for Unpaid Claims

The accrued payables and other liabilities of the City's Internal Service Fund consisted of a \$342,350 liability for estimated unpaid claims and \$3,040 of other accrued liabilities, for a total of \$345,390.

(7) Fixed Assets

A summary of changes in the General Fixed Assets Account Group follows:

| | Balance June 30, 1999 | Additions, Net Transfers and Reclassifications | Dispositions and Reclassifications | Balance June 30, 2000 |
|--------------------------------------|--------------------------|--|---------------------------------------|--------------------------|
| Land | \$2,793,397 | 1,007,293 | - | 3,800,690 |
| Buildings | 10,186,783 | 2,489,428 | (250) | 12,675,961 |
| Improvements other than buildings | 4,262,882 | 5,894,719 | (607,349) | 9,550,252 |
| Equipment | 9,242,184 | 814,247 | (486,092) | 9,570,339 |
| Construction in progress | 1,987,172 | 3,793,366 | (5,531,492) | 249,046 |
| | <u>\$28,472,418</u> | <u>13,999,053</u> | <u>(6,625,183)</u> | <u>35,846,288</u> |

A summary of property, plant and equipment of the enterprise funds at June 30, 2000 follows:

| | |
|-----------------------------------|---------------------|
| Land | \$3,244,171 |
| Buildings | 25,983,477 |
| Improvements | 23,981,334 |
| Equipment | <u>6,130,986</u> |
| | 59,339,968 |
| Less accumulated depreciation | <u>(22,784,859)</u> |
| | 36,555,109 |
| Construction in progress | <u>836,160</u> |
| Net property, plant and equipment | <u>\$37,391,269</u> |

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(8) Capital Leases

The following is an analysis of equipment leased under capital leases as of June 30, 2000:

| | General Fixed Assets | Enterprise Fund |
|-------------------------------|-------------------------|--------------------|
| Equipment | \$98,574 | \$334,293 |
| Less accumulated depreciation | - | (185,806) |
| Carrying value | <u>\$98,574</u> | <u>148,487</u> |

The following is a schedule of the future minimum lease payments under these capital leases and the present value of the net minimum lease payments at June 30, 2000:

| Fiscal Year Ending June 30, | General Long-term Debt | Enterprise Fund |
|--|---------------------------|--------------------|
| 2001 | \$22,108 | 95,661 |
| Less amount representing interest | (1,267) | (1,086) |
| Present value of future minimum lease payments | <u>\$20,841</u> | <u>94,575</u> |

(9) Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds therefore are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund general obligation bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City also participates in the Maryland Local Government Insurance Trust, a public entity risk pool, which provides insurance for claims in excess of coverage provided by the City's self-insurance fund. In 1990, Certificates of Participation were issued by the trust with the City's share being approximately 2% of the total. All debt service payments are made from the Trust's fund balance and are due annually to 2009.

The City has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2000, \$16,715,000 of bonds defeased are outstanding.

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(9) Debt, continued

Under provisions of Article 41, Section 14-101 through 14-109 of the Annotated Code of Maryland, the City has participated in Economic Development Revenue Bonds for various projects within the City. Neither the bonds, nor the interest thereon, constitute an indebtedness or contingent liability of the City and, accordingly, they are not included in general long-term debt. During fiscal year 1998, the City issued \$7,835,000 of these bonds on behalf of St. John's College, a Maryland not-for-profit educational corporation. The aggregate amount of conduit debt outstanding as of June 30, 2000 was \$7,670,000.

The following is a summary of changes in long-term debt by type of debt of the City for the year ended June 30, 2000:

| | General obligation bonds | Capital leases | Other debt | Total |
|--|--------------------------------|-------------------|------------------|-------------------|
| General Long-Term Debt Account Group: | | | | |
| Balance June 30, 1999 | \$17,140,968 | 40,487 | 462,025 | 17,643,480 |
| Additions | - | - | - | - |
| Reductions | (1,297,084) | (19,646) | (14,136) | (1,330,866) |
| Balance June 30, 2000 | <u>\$15,843,884</u> | <u>20,841</u> | <u>447,889</u> | <u>16,312,614</u> |
| Enterprise Funds: | | | | |
| Balance June 30, 1999 | \$15,964,168 | 121,551 | 1,355,264 | 17,440,983 |
| Additions | - | 34,255 | - | 34,255 |
| Reductions | (1,137,916) | (61,231) | (70,677) | (1,269,824) |
| Unamortized loss on refunding | 31,969 | - | - | 31,969 |
| Balance June 30, 2000 | <u>\$14,858,221</u> | <u>94,575</u> | <u>1,284,587</u> | <u>16,237,383</u> |

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(9) Debt, continued

The City is not in violation of any debt agreement provisions. The City Charter limits the aggregate amount of bonds and other indebtedness, with certain exceptions, to 10% of the assessable base of the City, which includes real and personal property. At June 30, 2000, the debt margin of the City was as follows:

| | |
|---|------------------------|
| Assessable basis upon which tax levy for year beginning July 1, 1999 was calculated | <u>\$1,055,942,141</u> |
| Debt limit; 10% of assessable basis | 105,594,214 |
| Debt subject to limitation | <u>22,071,817</u> |
| Debt margin | <u>\$83,522,397</u> |

Long-term debt amounts are comprised of the following as of June 30, 2000:

General Long-Term Debt Account Group:

General obligation bonds:

| | |
|--|------------|
| Public Improvements Bonds of 1991: \$2,098,625; interest 6% to 8%; due serially to 2011 | \$ 183,027 |
| Public Improvements Bonds of 1993: \$697,734; interest 3.6% to 5.5%; due serially to 2013 | 530,669 |
| Public Improvements and Refunding Bonds of 1994: \$3,941,632; interest 3.3% to 5.9%; due serially to 2015 | 3,161,447 |
| Public Improvements Bonds of 1995: \$3,883,340; interest 4.8% to 6.8%; due serially to 2015 | 3,343,910 |
| Public Improvements and Refunding Bonds of 1998: \$9,862,595; interest 4.375% to 5%; due serially to 2017 | 8,624,831 |

Obligations under capital leases:

| | |
|---|--------|
| Capital lease - 1996 - public works equipment: \$98,574 interest 6.08%; due annually to 2000 | 20,841 |
|---|--------|

Other debt:

| | |
|---|---------------|
| State of Maryland - MICRF loan: \$250,000; no interest; due quarterly to 2004 | 182,813 |
| State of Maryland - SALT loan: \$250,000; interest 5% to 8%; due monthly to 2004 | 218,760 |
| State of Maryland - MICRF loan: \$75,000; interest 6.44%; due quarterly to 2007 | <u>46,316</u> |

| | |
|------------------------------|---------------------|
| Total general long-term debt | <u>\$16,312,614</u> |
|------------------------------|---------------------|

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(9) Debt, Continued

Enterprise Funds:

General obligation bonds

| | |
|--|------------|
| Public Improvements Bonds of 1991: \$3,806,375; interest 6% to 8%; due serially to 2011 | \$ 331,973 |
| Public Improvements Bonds of 1993: \$2,977,266; interest 3.6% to 5.5%; due serially to 2013 | 2,274,701 |
| Public Improvements and Refunding Bonds of 1994: \$3,503,368; interest 3.6% to 5.9%; due serially to 2015 | 2,948,553 |
| Public Improvements Bonds of 1995: \$1,771,660; interest 4.8% to 6.8%; due serially to 2015 | 1,381,090 |
| Public Improvements and Refunding Bonds of 1998: \$9,352,405; interest 4.375% to 5%; due serially to 2017 | 7,921,904 |

Obligation under capital leases:

| | |
|---|--------|
| Capital lease - 1996- recycling equipment: \$104,900; interest 6.25%; due annually to 2000 | 22,243 |
| Capital lease - 1999- refuse equipment: \$47,788; interest 5.75%; due annually to 2004 | 38,565 |
| Capital lease - 2000- sewer equipment: \$34,255; interest 5.75%; due annually to 2005 | 33,767 |

Other debt:

| | |
|---|-----------|
| State of Maryland Water Quality loan: \$1,570,795; interest 3.25% payable from net cash provided by operations of sewer as generated | 1,284,587 |
|---|-----------|

| | |
|-----------------------------|--------------|
| Total enterprise funds debt | \$16,237,383 |
|-----------------------------|--------------|

Interest costs incurred on general obligation bonds allocated to the enterprise funds were \$778,634 for the year ended June 30, 2000, of which \$7,406 was capitalized. Interest earned from investments of the unexpended capital funds of \$4,230 has been applied to reduce the cost of the related assets.

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(9) Debt, Continued

Long-term debt maturities, including interest of \$5,539,957 in the General Long-Term Debt Account Group and including interest of \$5,656,967 and excluding the unamortized loss on refunding of \$332,895 in the Enterprise Funds are scheduled as follows:

| | General obligation bonds | Capital leases | Other debt | Total |
|--|--------------------------------|-------------------|------------------|-------------------|
| General Long-Term Debt Account Group: | | | | |
| 2001 | \$2,049,337 | 22,108 | 272,694 | 2,344,139 |
| 2002 | 2,042,235 | - | 6,250 | 2,048,485 |
| 2003 | 2,087,864 | - | 6,250 | 2,094,114 |
| 2004 | 1,726,581 | - | 6,250 | 1,732,831 |
| 2005 | 1,727,200 | - | 157,812 | 1,885,012 |
| 2006-2010 | 6,528,620 | - | - | 6,528,620 |
| 2011-2015 | 4,258,031 | - | - | 4,258,031 |
| 2016-2018 | 961,339 | - | - | 961,339 |
| | <u>\$21,381,207</u> | <u>22,108</u> | <u>449,256</u> | <u>21,852,571</u> |
| Enterprise Funds: | | | | |
| 2001 | \$1,976,842 | 95,661 | 109,561 | 2,182,064 |
| 2002 | 1,972,778 | - | 109,561 | 2,082,339 |
| 2003 | 1,930,456 | - | 109,561 | 2,040,017 |
| 2004 | 1,590,858 | - | 109,561 | 1,700,419 |
| 2005 | 1,588,411 | - | 109,561 | 1,697,972 |
| 2006-2010 | 6,337,886 | - | 547,803 | 6,885,689 |
| 2011-2015 | 4,179,056 | - | 547,803 | 4,726,859 |
| 2016-2018 | 911,886 | - | - | 911,886 |
| | <u>\$20,488,173</u> | <u>95,661</u> | <u>1,643,411</u> | <u>22,227,245</u> |

(10) Pension Plans

Generally, all regular City employees, except policemen and firemen, participate in the Employees Retirement and Pension Systems (Systems), cost sharing multiple-employer defined benefit plan sponsored and administered by the State Retirement and Pension System of Maryland. Police and fire personnel participate in a single employer defined benefit pension and disability plan, which is administered by the City's personnel director. In addition, the City established an eight-member police and fire retirement plan commission to review funding and actuarial reports and to make investing decisions. The City Council has the authority to establish and amend benefit and contribution provisions. The Systems were created by the Maryland General Assembly and the Police and Fire System was established by City legislation.

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

(10) Pension Plans, Continued

Plan Description and Contribution Information

(A) Cost Sharing Multiple-Employer Plan

The Systems provide retirement, disability, and death benefits to participants and their beneficiaries. The State Retirement and Pension System of Maryland issues a publicly available financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing to State Retirement Agency of Maryland, 301 W. Preston Street, Baltimore, Maryland 21201.

Members of the Retirement System are required to contribute 5% and the City is required to contribute the remaining amount. For the participants in the Pension System, the City contributes 100%. City contributions to the Systems, which were equal to 100% of the required contribution, for the years ended June 30, 2000, 1999, and 1998 were \$588,944, \$566,810, and \$637,748, respectively.

(B) Single Employer Plan

The Police and Fire System is a single-employer defined benefit plan that covers the police and fire personnel of the City. The plan provides retirement, disability, and death benefits to its members and beneficiaries. Participants with twenty years of service and hired before August 1, 1972, or those hired between August 1, 1972 and August 1, 1979 and age 55 are eligible for benefits equal to 2% of average earnings times years of service to a maximum of thirty years but no benefits are provided for early retirement. Participants in the revised version of the plan with twenty-five years of service are eligible for benefits equal to 2% of average earnings times years of service to a maximum of thirty-seven and one-half years. Reduced benefits are available under this plan at age 50 with twenty years of service.

Participants in the original plan are required to contribute 3% of their annual salary and the revised plan participants are required to contribute 5% of their annual salary. The City is required to fund the remaining cost of the plan. The City had no annual required contribution, but made contributions of \$245,928, \$231,587, and \$780,261 for the fiscal years ending June 30, 2000, 1999, and 1998, respectively. The City has made all the required contributions. Administrative costs of the plan are financed through investment earnings. The plan is considered part of the City's reporting entity and is included in the City's financial statements as Pension Trust funds. There is no separately issued financial report for this plan.

The number of employees covered and current membership classification as of July 1, 1999 are as follows:

Non-Active Members:

| | |
|---|-----|
| Retirees and beneficiaries receiving benefits | 120 |
| Terminated employees not yet receiving benefits | 16 |

Active Employees:

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

| | |
|--------------|-----|
| Fully vested | 21 |
| Non-vested | 185 |

(10) Pension Plans, Continued

Historical trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due and is presented as required supplementary information in the section which follows the "Notes to Financial Statements" section.

(11) Other Post Retirement Benefits

The City allows retired employees to participate in its group health insurance plan. The full cost is paid by the employee.

(12) Interfund Receivables and Payables

Interfund receivables and payables consist of the following at June 30, 2000:

| | Receivables | Payables |
|-------------------------|--------------------|------------------|
| General Fund: | | |
| Internal Service Fund | \$ 402,805 | - |
| Enterprise Funds: | | |
| Water Fund | 1,492,098 | - |
| Off-Street Parking Fund | 2,993,238 | - |
| Transportation Fund | 1,463,029 | - |
| Pension Trust Fund | - | 19,159 |
| Internal Service Fund: | | |
| General Fund | - | 402,805 |
| Enterprise Funds: | | |
| General Fund | - | 5,948,365 |
| Pension Trust Fund: | | |
| General Fund | 19,159 | - |
| | <u>\$6,370,329</u> | <u>6,370,329</u> |

The City allocates interest between the General and enterprise funds based upon month-end interfund balances at the average monthly interest rate of the state's local government investment pool. Such allocation for the year ended June 30, 2000 is reported as an interfund credit in the General Fund and as a portion of the administrative charge from General Fund in the enterprise funds.

(13) Contingencies

The City, in the normal course of activities, is a defendant in several lawsuits. Losses, if any, are estimated

CITY OF ANNAPOLIS, MARYLAND

Notes to General Purpose Financial Statements, Continued

to be less than the City's insurance coverage. Potential liabilities are covered by the City's self-insurance fund and the City's participation in the Maryland Local Government Insurance Trust, a public entity risk pool.

(14) Capital Facilities and Connection Charges

In the enterprise funds, capital facility charges are assessed to property owners over a period of thirty years from the date related properties physically connect to the City's water and/or sanitary sewage collection and treatment systems. Such charges are legally restricted to pay for capital construction within the systems or to pay for debt service on debt issued to finance such construction. The City recognizes the annual charges earned as an addition to contributed capital. Charges levied and receivable in future years are reported as a receivable and deferred revenue.

A connection charge not exceeding the cost of connecting to the systems is assessed and collected prior to connection. Such revenue is recognized as operating income and recorded as charges for services.

(15) Construction Commitments

As of June 30, 2000, the City had a \$120,000 commitment for the original design and engineering of road improvements on one of its major arteries and a second commitment for \$155,000 to complete the renovation a City-owned historic building. The renovation will be completed in October, 2000 and the road improvement project is expected to be completed by December, 2001.

(16) Grants

The City receives grants from time-to-time. Expenditures from certain grants are subject to audit by the grantor, and the City is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the City's management, no material refunds will be required as a result of disallowed expenditures.

(17) Risk Management

The City is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to workers; and natural disasters. The City maintains a self-insurance fund and participates in the Maryland Local Government Insurance Trust, a public entity risk pool, which provides insurance for claims in excess of coverage provided by the City's self-insurance fund.

This is a total risk and cost sharing pool for all participants. In the event that the Trust's General Fund falls into a deficit that cannot be satisfied by transfers from the Trust's capital and surplus accounts, the Trustees shall determine a method to fund the deficit. The Trust agreement empowers the Trustees to assess an additional premium to each deficit-year participant. Debt issues could also be used to fund a deficit.

Premiums are charged to the City's General Fund, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust. There have been no assessments during the year ended June 30, 2000.

CITY OF ANNAPOLIS, MARYLAND

(17) _____

The accounts for financial operations the self-insurance in the Service Fund. The maintains excess to reduce exposure insurance is employed to estimate funding requirements and liabilities of the self-insurance The funding for each year represents the present value of the amount needed to pay the expected final settlement for all claims which occur in that year regardless of the date Claims "incurred but not reported" are accounted as accrued and other liabilities in the Internal Service Fund accordance with No. 10 FASB No. as applicable. The carrying amount liabilities for claims is at present using a rate of to recognize time of money. and other during fiscal 1999

| <u>FY 1999</u> | <u>FY 2000</u> |
|------------------|------------------|
| \$518,032 | \$574,328 |
| 128,489 | (107,523) |
| (72,193) | (121,415) |
| <u>\$574,328</u> | <u>\$345,390</u> |

have been reductions in coverage from prior year during the three years total amount of settlements has not exceeded insurance coverage.

(18) _____

In with the Department of Environment regulations, of June 1993, the landfill were terminated. As of March 31, 1998, the landfill is closed with closure and continue monitoring process the regulations currently to maintain site as space. Actual costs may be higher due inflation, changes technology, or changes in regulations. annual appropriation established for monitoring costs any postclosure requirements

CITY OF ANNAPOLIS, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
PENSION FUND
(Unaudited)

SCHEDULES OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability(AAL) Entry Age (b) | Unfunded AAL (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | Unfunded AAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|----------------------------|--------------------------|---------------------------|---|
| 7/1/94 | \$ 57,623,216 | \$ 52,187,187 | \$ (5,436,029) | 110% | \$ 7,966,183 | (68)% |
| 7/1/95 | 64,333,127 | 62,366,829 | (1,966,298) | 103% | 8,419,097 | (23)% |
| 7/1/96 | 72,646,830 | 69,504,191 | (3,142,639) | 105% | 8,882,319 | (35)% |
| 7/1/97 | 84,665,065 | 77,319,805 | (7,345,260) | 109% | 9,364,421 | (78)% |
| 7/1/98 | 99,032,147 | 80,099,248 | (18,932,899) | 124% | 9,025,836 | (210)% |
| 7/1/99 | 112,085,087 | 85,554,792 | (26,530,295) | 131% | 9,558,356 | (278)% |

A negative Unfunded Actuarial Accrued Liability represents a funding excess.

**SCHEDULES OF EMPLOYER
CONTRIBUTIONS**

| Fiscal Year | Annual Required Contribution | Percentage Contributed |
|----------------|------------------------------------|---------------------------|
| 1995 | \$ 353,247 | 234% |
| 1996 | 867,606 | 100% |
| 1997 | 766,985 | 110% |
| 1998 | 234,899 | 332% |
| 1999 | 0 | N/A |
| 2000 | 0 | N/A |

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

| | |
|-------------------------------|--------------------------|
| Actuarial valuation date | 7/1/99 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar |
| Remaining amortization period | 10 years - open |
| Asset valuation method | Asset smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 7.5% compounded annually |
| Projected salary increases | 6.0% compounded annually |
| Cost of living adjustments | 5.0% compounded annually |
| Inflation rate | 5.0% |
| Contribution rates: | |
| City | 0% |
| Members | 3 - 5% |